Notification template for Articles 133 and 134(5) of the Capital Requirements Directives (CRD) – Systemic risk buffer (SyRB)

Template for notifying the European Central Bank (ECB)and European Systemic Risk Board (ESRB) of the setting or resetting of one or more systemic risk buffer rates pursuant to Article 133(9) CRD and to request that the ESRB issue a recommendation to other Member States to reciprocate the measure under Article 134(5) CRD

Please send/upload this template to

- macropru.notifications@ecb.europa.eu when notifying the ECB (under Article 5 of the Single Supervisory Mechanism (SSM) Regulation[1]);
- DARWIN/ASTRA when notifying the ESRB.

The ESRB will forward the notification to the European Commission, the European Banking Authority (EBA) and the competent and designated authorities of the Member States concerned without delay. This notification will be made public by the ESRB once the relevant authorities have adopted and published the notified macroprudential measure[2].

E-mailing/uploading this template to the above addresses constitutes official notification; no further official letter is required. To facilitate the work of the notified authorities, please send the notification template in a format that allows the information to be read electronically.

1. Notifying national authority and scope of the notification	
1.1 Name of the notifying authority	Financial Market Authority Liechtenstein
1.2 Country of the notifying authority	Liechtenstein
1.3 Type of measure (also for reviews of existing measures)	Which SyRB measure do you intend to implement? ☐ Activate a new SyRB ☒ Change the level of an existing SyRB ☒ Change the scope of an existing SyRB (incl. changes to a subset of institutions or exposures) ☐ De-activate an existing SyRB ☒ Reset an existing SyRB (review)

[1] Council Regulation (EU) No 1024/2013 of 15 October 2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions (OJ L 287, 29.10.2013, p. 63).
[2] On request by the notifying authority, it may be agreed with the Head of the ESRB Secretariat that this notification, or a part thereof, should not be published for reasons of confidentiality or financial stability.

<table>
<tr><th colspan="2">2. Description of the measure</th></tr>
<tr><td>2.1 Institutions covered by the intended SyRB</td><td>Please indicate whether the SyRB applies to:

☒ All institutions authorised in the Member State

☐ One or more subsets of credit institutions in the sector (please provide the names and identifiers (Legal Entity Identifier (LEI) code) of institutions covered)
<table>
<tr><th>Name of institution</th><th>LEI code</th><th>Consolidation level</th></tr>
<tr><td></td><td></td><td></td></tr>
<tr><td></td><td></td><td></td></tr>
<tr><td></td><td></td><td></td></tr>
<tr><td></td><td></td><td></td></tr>
<tr><td></td><td></td><td></td></tr>
</table>
☐ A subsidiary whose parent is established in another Member State. (Please provide the names and identifiers (LEI code) of subsidiaries)
<table>
<tr><th>Name of subsidiary</th><th>Name of the parent</th><th>LEI code of the subsidiary</th></tr>
<tr><td></td><td></td><td></td></tr>
<tr><td></td><td></td><td></td></tr>
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<tr><td></td><td></td><td></td></tr>
<tr><td></td><td></td><td></td></tr>
</table>
If the SyRB applies to a subset of institutions, please describe the criteria for selection of the relevant institutions.</td></tr>
<tr><td>2.2 Exposures covered by the SyRB

(Article 133(5) CRD)</td><td>Please indicate the exposures to which the SyRB applies:

☐ (a) all exposures located in the Member State that is setting the buffer;

☒ (b) the following sectoral exposures located in the Member State that is setting the buffer:

(i) ☒ all retail exposures to natural persons that are secured by residential property;
(ii) ☒ all exposures to legal persons that are secured by mortgages on commercial immovable property;
(iii) ☐ all exposures to legal persons excluding those specified in point (ii);
(iv) ☐ all exposures to natural persons excluding those specified in point (i);

☐ (c) subsets of any of the sectoral exposures identified in point (b). Please specify the subsets in Section 2.3;

☐ (d) all exposures located in other Member States;

☐ (e) exposures located in third countries.</td></tr>
<tr><td>2.3 Subsets of sectoral exposures</td><td>Where the systemic risk buffer applies to subsets of any of the sectoral exposures identified (see point 2.2 (c)), please specify:

- The elements of the dimensions and subdimensions that were used to identify the subset(s) of sectoral exposures as laid down in the EBA</td></tr>
</table>

<table>
<tr>
<td></td>
<td>
Guidelines on the appropriate subsets of exposures in the application of SyRB:
<table>
<tr><th>Dimensions/subdimensions</th><th>Elements</th></tr>
<tr><td>1. Type of debtor or counterparty sector</td><td>Natural and legal persons</td></tr>
<tr><td>1.a Economic activity</td><td></td></tr>
<tr><td>2. Type of exposure</td><td>Real estate exposure</td></tr>
<tr><td>2.a Risk profile</td><td></td></tr>
<tr><td>3. Type of collateral</td><td>Residential and commercial property</td></tr>
<tr><td>3.a Geographical area</td><td>Liechtenstein</td></tr>
</table>

Assessment conducted in accordance with Section 5 of the EBA Guidelines on the systemic relevance of the risks stemming from this subset, taking into account:
(i) size
(ii) riskiness
(iii) interconnectedness.
Why it would not have been appropriate to set the systemic risk buffer at the level of a sector (as in point 2.2(b)) to cover the risk targeted?

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<tr>
<td>2.4 Exposures located in other Member States and in third countries</td>
<td>
If the systemic risk buffer applies to exposures located in other Member States or third countries (see points 2.2(d) and (e)), please include the names of those countries.

Not applicable as the SyRB does not apply to exposures located in other Member States or third countries.
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<tr>
<td>2.5 Buffer rate

(Article 133(9)(e) CRD)</td>
<td>
Specify the intended SyRB rate. If different buffer requirements apply to different exposures or subsets of exposures, please specify for each exposure indicated under 2.2.

Please indicate any changes to the list in 2.1 of institutions concerned and in the buffer rates given in point 2.5 as compared to the last notification, and provide an explanation, if applicable.
<table>
<tr><th rowspan="2">Exposures</th><th colspan="2">New SyRB rate</th><th colspan="2">Previous SyRB rate</th></tr>
<tr><th>All institutions (SyRB rate)</th><th>Set of institutions (range of SyRB rates)</th><th>All institutions (SyRB rate)</th><th>Set of institutions (range of SyRB rates)</th></tr>
<tr><td>(a) All exposures located in the Member State that is setting the buffer</td><td>%</td><td>% - %</td><td></td><td>1-2%</td></tr>
<tr><td colspan="3">(b) The following sectoral exposures located in the Member State that is setting the buffer:</td><td></td><td></td></tr>
<tr><td>(i) All retail exposures to natural persons that are secured by residential property</td><td>1%</td><td>% - %</td><td></td><td></td></tr>
<tr><td>(ii) All exposures to legal persons that are secured by mortgages on commercial immovable property</td><td>1%</td><td>% - %</td><td></td><td></td></tr>
<tr><td>(iii) All exposures to legal persons excluding those specified in point (ii)</td><td>%</td><td>% - %</td><td></td><td></td></tr>
<tr><td>(iv) All exposures to natural persons excluding those specified in point (i)</td><td>%</td><td>% - %</td><td></td><td></td></tr>
</table>
</td>
</tr>
</table>

(c) All exposures located in other Member States	%	% - %		
(e) Exposures located in third countries	%	% - %		
(f) *Subsets of any of the sectoral exposures identified in point (b):*				
(i) Please specify the subset [Dimension/subdimensions]	%	% - %		

If different buffer requirements apply to different subsets of institutions, please specify for each institution mentioned under 2.1.

Set of institutions				
Exposures	**Name of institution**	**LEI code**	**New SyRB rate**	**Previous SyRB rate**
			%	
			%	
			%	

3. Timing for the measure

3.1 Timing for the decision	What is the date of the official decision? For SSM countries when notifying the ECB: provide the date on which the decision referred to in Article 5 of the Single Supervisory Mechanism Regulation (SSMR) will be taken. 26/04/2022
3.2 Timing for publication	What is the proposed date of publication of the notified measure? 29/04/2022
3.3 Disclosure	Information about the strategy for communicating the notified measure to the market. Do you also intend to publish the justification for the SyRB? If not, why do you consider that publication could jeopardise the stability of the financial system? The respective amendment of the Banking Ordinance was published on 29.04.2022 in the Liechtenstein Law Gazette. https://www.gesetze.li/chrono/pdf/2022130000 The justification for the sectoral SyRB is published on the FMA website: https://www.fma-li.li/de/aufsicht/finanzstabilitat-und-makroprudenzielle-aufsicht/ausschuss-fur-finanzmarktstabilitat/risikohinweise-und-empfehlungen.html https://www.fma-li.li/en/supervision/financial-stability-and-macroprudential-supervision/macroprudential-instruments/systemic-risk-buffer.html
3.4 Timing for application	What is the intended date of application of the measure? 01/05/2022
3.5 Phasing in	What is the intended timeline for phase-in of the measure (if applicable)? No phasing in.
3.6 Review/deactivation of the measure	Until when will the measure presumably be in place? What are the conditions for its deactivation? On what indicators would the decision be based? Please

	specify whether you intend to review the measure before the maximum period of two years foreseen in Article 133(8)(b) CRD. The SyRB for Liechtenstein's banking sector is intended to be reviewed every two years. The measure is also intended to be in place as long as systemic risks associated with the accumulation of private household indebtedness is assessed to be significant. If systemic risks continue to increase, in particular due to rising risks related to private household debt, the authorities in Liechtenstein will consider increasing the buffer rate as part of its regular review of the systemic risk buffer, unless other (and more accurate) macroprudential tools are available to address the systemic risks.
4. Reasons for the notified SyRB	
4.1 Description of the macroprudential or systemic risk in your Member State **(Article 133(9)(a) of the CRD)**	Where applicable, please classify the risks targeted by the notified SyRB under the following categories: (i) risks stemming from the structural characteristics of the banking sector - Size and concentration of banks - Ownership structure - Other structural risks: High household indebtedness (ii) risks stemming from the propagation and amplification of shocks within the financial system - Exposure concentration/asset commonality - Commonality in bank business models: For some banks, high household mortgage loans are an important source of profitability - Financial interconnections and contagion (iii) risks to the banking system stemming from either the real economy or specific sectors - Economic openness - Sectoral risks from the private non-financial sector, households and the public sector (iv) Other risks Please specify: - Whether these risks are widespread across the whole financial sector? - Or whether they are concentrated only in one or more subsets of the sector? A significant structural systemic risk in Liechtenstein is the high level of household indebtedness relative to GDP and income and the associated risks for the banking sector, mainly due to the high volume of mortgage loans in some of the banks' portfolios. This exposure concentration and commonality in bank business models for some banks can threaten the resilience of the whole banking sector in case of a decrease of household income, price corrections or an abrupt increase in interest rates. If these risks would materialize, bank write-downs and losses will likely increase, in particular, with respect to loans to heavily indebted households. The risks observed need in a first place be addressed by capital buffers to increase the resilience of all banks supplying real estate loans located in Liechtenstein, for which reason the sectoral systemic risks buffer includes the risk positions both towards natural and legal

	persons. The buffer rate was calibrated based on likely losses in an assumed stress scenario and past crisis costs (see 5.1). The activation of the sectoral systemic risk buffer aims to increase the resilience of the banking sector against the risks of high household indebtedness. The authorities in Liechtenstein will consider increasing the buffer rate as part of its regular review of the systemic risk buffer in case of a further increase of the identified systemic risks, unless other (and more accurate and targeted) macroprudential tools are available to address them. For a detailed analysis of the risks in the Liechtenstein real estate sector, see the Financial Stability Reports 2018-2021 and the FMA report from 2021 on "Liechtenstein's Mortgage and Real Estate Market: Current Developments and Risks from a Financial Stability Perspective".
4.2 Reasons why the dimension of the macroprudential or systemic risks threatens the stability of the financial system in your Member State **(Article 133(9)(b) CRD)**	Reasons why the macroprudential or systemic risks threaten financial stability and justifying the systemic risk buffer rate. In Liechtenstein, the high level of mortgage assets on bank balance sheets and the associated high indebtedness of the private household sector have been identified as systemic cluster risks. Mortgage lending in Liechtenstein is an important business segment for some Liechtenstein banks. Although mortgage credit growth has slowed in recent years, according to tax statistics, household debt in Liechtenstein is still the highest in a European comparison (relative to GDP). Private household debt stands at around 120% of Liechtenstein's GDP as of end 2020, with the largest share of household debt consisting of mortgage loans. Despite risk mitigating factors, the structurally high level of household debt represents a systemic risk for the Liechtenstein banking sector that should not be underestimated and should therefore be addressed accordingly. The higher risk appetite of households - e.g. through a stock or bond portfolio running in parallel to the mortgage loan - is associated with corresponding risks in the event of a financial market downturn and could result in a downward spiral in the Liechtenstein banking sector, also with regard to the collateral of the loans (e.g. real estate), with corresponding procyclical effects. The banks are affected to varying degrees by this systemic risk due to different proportions of mortgage loans. Thus, an abrupt increase in interest rates, a loss of employment or a decline in real estate prices could lead to large defaults on loans and, as a consequence, to high write-downs for banks if borrowers cannot service their debt/interest payments. In this situation, some Liechtenstein banks could suffer large capital losses that could potentially threaten their existence despite their high level of capitalization. Higher capital requirements can therefore improve the risk-bearing capacity of banks vis-à-vis this systemic cluster risk.
4.3 Indicators used for activation of the measure	Provide the indicators triggering activation of the measure. When notifying the ECB, please provide the data on which the decision is based, if possible (preferably in an Excel file). Besides indicators for systemic cluster risk and systemic vulnerabilities, the following indicators are used: • Mortgage loan volume • Mortgage loan growth • Household debt ratio (% of GDP, % of income) • Price dynamics of residential real estate • Building activity Please also see the detailed analysis of the risks in the Liechtenstein real estate sector in the FMA report from 2021 on "Liechtenstein's Mortgage and Real Estate Market: Current Developments and Risks from a Financial Stability

	Perspective", where a broad set of indicators is used to assess the risks in the Liechtenstein real estate market.
4.4 Effectiveness and proportionality of the measure **(Article 133(9)(c) CRD)**	Explanation why the draft measures are deemed likely to be effective and proportionate to mitigate the risk. E.g. how will the effectiveness of the measure be assessed? Based on which indicators? What are the expected transmission mechanisms? The sectoral SyRB of 1% for exposures secured by real estate in Liechtenstein is considered effective and proportionate due to the structural risks based on past crisis costs and stress scenarios. At the same time, by strengthening the resilience of the banking system, the measure effectively contributes to mitigating the identified structural risks in the Liechtenstein banking sector. Setting a sectoral systemic risk buffer for real estate exposures increases the resilience specifically of the banks providing real estate financing. These institutions have a higher risk-bearing capacity in case of a materialization of the risks described in 4.1. The results of stress scenarios on the one hand and also historical crisis costs in the EEA and Switzerland on the other hand indicate that a sectoral SyRB ratio of 1% for mortgages in Liechtenstein is conducive to maintaining the resilience of the banking system to the identified systemic risks and can thereby effectively promote financial stability in Liechtenstein. In addition, the buffer is proportionate, as it does not prohibit any kind of lending, but instead brings about minor changes to the relative prices of certain lending segments. Furthermore, the Liechtenstein banking sector has a solid capital base. All Liechtenstein banks hold a capital surplus above the overall regulatory capital requirements, so that the SyRB is unlikely to create any additional capital requirements for the identified Liechtenstein banks, even if the cumulative application of the O-SII and SyRB under the CRD V framework will result in slightly higher combined capital buffer requirements for some banks. Thus, no higher costs for the real economy or negative effects on GDP are expected to result from the recalibration of the SyRB. The costs for the real economy are estimated at a negligible level. The measure will be assessed on a regular basis by the FMA both from a micro- as well as a macroprudential perspective. The macroprudential assessment will include all available indicators as mentioned under 4.3. In addition, as of mid-2022, the FMA will also have more detailed data on banks' lending standards resulting from the introduction of ESRB recommendation on closing real estate data gaps (i.e. ESRB/2016/14 as amended). The Financial Stability Council will also discuss and assess the measures and the development of real estate related risks in the banking sector in its future meetings.
4.5 Reason why the systemic risk buffer is not duplicating the functioning of the O-SII buffer provided for in Article 131 CRD **(Article 133(9)(f) CRD)**	Where the systemic risk buffer rate applies to all exposures, please justify why the authority considers that the systemic risk buffer is not duplicating the functioning of the O-SII buffer provided for in Article 131 CRD. Not applicable, as the SyRB applies to sectoral exposures located in Liechtenstein.
5. Sufficiency, consistency and non-overlap of the policy response	
	For a macroprudential policy to be 'sufficient', the policy responses must be deemed to significantly mitigate, or reduce the build-up of, risks over an

5.1 Sufficiency of the policy response	appropriate time horizon with a limited unintended impact on the general economy. Note that the ESRB will use this assessment of the macroprudential stance as relevant input in assessing the sufficiency of the macroprudential policy in the Member States. Please provide any additional information that the ESRB should consider in assessing the sufficiency of the policy response. The systemic risk buffer is assessed to be sufficient based on past crisis costs in the EU and Switzerland and stress scenarios, by assuming abrupt and substantial rise in interest rates, which has negative effects on banks' funding conditions and credit risk. After considering the risk-mitigating factors in Liechtenstein, the calibration results in a sectoral SyRB for all Liechtenstein banks of 1% of the risk amount of the loans secured by immovable property in Liechtenstein. The sectoral SyRB thus aims at strengthening the resilience of the banking sector to the identified real estate risks. The systemic risk buffer is however only one measure to mitigate the build-up of real estate related systemic risks. Overall, in combination with various borrower-based measures that are already in place, the policy mix is considered to be sufficient to address the identified structural risks in an efficient and effective manner.
5.2 Consistency of application of the policy response	For a macroprudential policy to be ‘consistent’, the policy instruments must be deemed to meet their respective objectives as outlined in ESRB/2013/1[3] and must be implemented in accordance with the common principles set out in the relevant legal texts. Note that the ESRB assessment of consistency will consider whether the same systemic risks are addressed in a similar way across and within the Member States over time. Please provide any additional information that the ESRB should consider in assessing the consistency of the policy response. The systemic risk buffer is consistent with the objectives as outlined in ESRB/2013/1 and is applied under Article 133 of the CRD and in accordance with Article 4l Banking Act. In addition, the buffer is consistently applied in line with the macroprudential policy in Liechtenstein, with the objective to maintaining high capital buffers to enhance the resilience of the banking sector in Liechtenstein against real estate-related systemic risks. The introduction of the measure has been extensively discussed in the Financial Stability Council and the FMA.
5.3 Non-overlap of the policy response	For a policy instrument to be ‘non-overlapping’, it should aim to address a systemic risk that either differs to the risk addressed by other active tools in the same Member State, or to be complementary to another tool in that Member State which addresses the same systemic risk. - Are other policy instruments used to address the <u>same</u> systemic risk? - If yes, please explain the need for more than one instrument to address the same systemic risk and how the different instruments interact with each other.

[3] Recommendation of the European Systemic Risk Board of 4 April 2013 on intermediate objectives and instruments of macro-prudential policy (ESRB/2013/1) (OJ C 170, 15.6.2013, p. 1).

	The instrument aims to increase the resilience of the banking sector against macroprudential systemic risks. There are no policy instruments available to address the same systemic risk.
6. Cross-border and cross-sector impact of the measure	
6.1 Assessment of cross-border effects and the likely impact on the Internal Market **(Article 133(9)(d) of the CRD and Recommendation ESRB/2015/2[4])**	Assessment of the cross-border effects of implementation of the measure. a. Assessment of the spillover channels operating via risk adjustment and regulatory arbitrage. The relevant indicators provided in Chapter 11 of the ESRB Handbook on Operationalising Macroprudential Policy in the Banking Sector[5] and the Framework to assess cross-border spillover effects of macroprudential policies of the ECB Task Force on cross-border spillover effects of macroprudential measures can be used. b. Assessment of the: ○ cross-border effects of implementation of the measure in your own jurisdiction (inward spillovers); ○ cross-border effects on other Member States and on the Single Market of the measure (outward spillovers); ○ overall impact on the Single Market of implementation of the measure. As the SyRB only targets domestic exposures secured by immovable property of banks located in Liechtenstein, cross-border effects (neither inward nor outward spillover effects) and the likely impact of the measure on the Internal Market are expected to be negligible.
6.2 Assessment of leakages and regulatory arbitrage within the notifying Member State	Referring to your Member State's specific characteristics, what is the scope for "leakages and regulatory arbitrage" in your own jurisdiction (i.e. circumvention of the measure/leakages to other parts of the financial sector)? Is there scope for "leakages and regulatory arbitrage" in other jurisdictions? Given that the SyRB is applied on a consolidated and individual basis for all banks, we do not expect any leakages and regulatory arbitrage in Liechtenstein. Also, leakages and circumventions to other financial sectors is expected to be very limited to non-existent.
6.3 Request for reciprocation by other Member States **(Article 134(5) CRD and Recommendation ESRB/2015/2)**	Does the authority intend to ask the ESRB to issue a recommendation to other Member States to reciprocate the measure in accordance with Article 134(5) CRD? Choose an item. - If yes, please provide in Section 6.4. the justification for that reciprocity. - If no, what are the reasons for not requesting reciprocation? No. Given the high concentration of the Liechtenstein banking sector (the three largest institutions cover over 90% of total assets and lending), the limited

[4] Recommendation of the European Systemic Risk Board of 15 December 2015 on the assessment of cross-border effects of and voluntary reciprocity for macroprudential policy measures (ESRB/2015/3) (OJ C 97, 12.3.2016, p. 9).
[5] Available on the ESRB's website at www.esrb.europa.eu.

	activities of foreign banks in the domestic mortgage market as well as the design of the SyRB only addressing real estate property exposures domiciled in Liechtenstein, the reciprocation by other Member States is not required.
6.4 Justification for the request for reciprocation by other Member States **(Article 134(5) CRD and Recommendation ESRB/2015/2)**	To request reciprocation, please provide the following: - a concise description of the measure to be reciprocated; - the financial stability considerations underlying the reciprocity request, including the reasons why the reciprocity of the activated measure is deemed necessary for its effectiveness; - the proposed materiality threshold and justification for that level. If the ESRB deems the request for reciprocation to be justified, the description provided will form the basis for translation into all EU official languages for the purposes of an update of Recommendation ESRB/2015/2. Liechtenstein authorities do not request reciprocation by other Member States.
7. Combination of the SyRB with other buffers	
7.1 Combination with G-SII and/or O-SII buffers **(Article 131(15) CRD)**	Is the sum of the systemic risk buffer rate and the higher of the O-SII/G-SII buffer rates to which the same institution is subject above 5%? No. • There is no G-SII institution operating in Liechtenstein. • The O-SII buffer is applied to three institutions on the consolidated and individual level of 2% of RWA. • The sum of the SyRB and the O-SII buffer rate is below 5% for all institutions. Please provide a list of the institutions subject to a G-SII or an O-SII buffer, indicating the G-SII or O-SII buffer and the sum of the G-SII/O-SII and SyRB buffers (a combined buffer rate of over 5% requires authorisation by the Commission).

Name of institution	G-SII/O-SII buffer rate	O-SII consolidation level	Sum of G-SII/O-SII and SyRB rates
LGT Bank AG	2 %	individual and consolidated level	3%
Liechtensteinische Landesbank AG	2 %	individual and consolidated level	3%
VP Bank AG	2 %	individual and consolidated level	3%
	%		%
	%		%
	%		%
	%		%

7.2 Combination with other systemic risk buffers **(Article 133(11) and (12) CRD)**	Indicate all sets or subsets of exposures that would be subject to one or more systemic risk buffers with a combined systemic risk buffer rate in the ranges below: - above 3% and up to 5% - above 5% Indicate whether any subsidiaries of a parent in another EU Member State would be subject to a combined systemic risk buffer rate above 3%.

	Not applicable. No subsidiary of a parent in another Member State is subject to a combined systemic buffer rate above 3%, as there are no subsidiaries of a parent in another Member State operating in Liechtenstein.
8. Miscellaneous	
8.1 Contact person(s)/mailbox at notifying authority	Contact person(s) (name, phone number and e-mail address) and mailbox for further inquiries. Sophia Döme: sophia.doeme@fma-li.li, +423 236 7493 Martin Gächter: martin.gaechter@fma-li.li, +423 236 7392
8.2 Any other relevant information	
8.3 Date of the notification	Please provide the date on which this notification was uploaded/sent. 04/05/2022